

# grassroots connections

the newsletter of working capital for community needs (wccn)

spring 2011



## A Closer Look At Fair Trade Coffee Financing



Isabel Zamora, a member of La Fem in Nicaragua, picking coffee.  
Photo by Michael Kienitz

By Carlos Arenas, WCCN Executive Director

For more than two decades, WCCN has supported fair trade. Actually, the fair trade coffee movement in the United States had its roots in the 1980s in Nicaragua, where WCCN was strongly involved. During that time, young activists from the United States created the worker-owned cooperative Equal Exchange to oppose their government's blockade against the Sandinista revolution by importing coffee beans from coffee cooperatives in Nicaragua for sale in the U.S.

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### You are invited to WCCN's Annual Meeting

Friday, April 29, 2011,  
6:00 pm - 8:00 pm  
United Way Building, 2059  
Atwood Avenue, Madison, WI  
\$10 suggested donation

RSVP, Jeanne Duffy at  
1-888-224-6422  
or e-mail

[jeanne@capitalforcommunities.org](mailto:jeanne@capitalforcommunities.org)

# A letter from WCCN's Executive Director

During the last couple of years, microfinance has been hit hard from different angles. Politicians from the whole political spectrum have organized groups of dissatisfied borrowers to actively protest against microfinance organizations in countries such as Nicaragua, Pakistan and, most recently, India. Media has been receptive to more critical claims and stories of abuses committed by a few microfinance providers in some countries. From 2005 to 2008, some people portrayed microfinance as the silver bullet to resolve poverty. Today, skepticism about its virtues grows.

In some ways, microfinance has been victim of its success, attracting the interest of traditional bankers, investors, media and, of course, politicians. They changed the traditional microfinance landscape for better and for worse. To some extent, microfinance has lost its innocence and some of its original appeal. The popularity shift doesn't shock WCCN and other organizations that have been in the field from almost the very beginning. During the microfinance movement's first couple of decades, few people expected it to succeed or be an effective anti-poverty tool. Microfinance showed its potential and its efficacy fighting poverty. Now that its popularity has decreased somewhat, microfinance institutions would be advised to retool and take stock of what works and what doesn't.

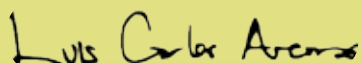
Microfinance organizations in Nicaragua, where the crisis was especially strong, have been doing just that. We see much room for optimism about the future of microfinance and the possibility for vindication as an anti-poverty tool. Although not the only answer, microfinance remains important.

The crisis in the microfinance sector also has allowed WCCN to seriously consider other models of financing that could accomplish similar goals. Grassroots business financing or fair trade financing recently has come to our attention, and we happily are adding this lending program to our portfolio as we continue to diversify risks and rewards. WCCN also has a very practical interest in grassroots business financing as an opportunity to support the fair trade cooperatives we have been working with for several years, as well as those we would like to support for the first time.

This edition of *Grassroots Developments* focuses entirely on our new involvement with fair trade coffee financing and profiles the producer cooperatives we are working with: CECOCAFEN and La FEM in Nicaragua and COMSA and RAOS in Honduras.

We financed La FEM through Just Coffee, a Madison-based fair trade roaster cooperative. Matt Earley, one of the co-op's owners, has written a very interesting article about a new approach to fair trade lending recently tested by WCCN and Just Coffee. Matt's perspective on the potential of this approach related to Just Coffee's insistence that fair trade remain loyal to its roots, with the producers' interests coming first even over their own business. WCCN is honored to help fulfill the original goals and promises that fair trade made to small-scale producers in Latin America and elsewhere. We welcome your support and hope you share our excitement about our new lending program and its promises.

Sincerely,



Carlos Arenas  
WCCN Executive Director

# Beyond Price: Building a Better Pre-Financing Model

By Matt Early, *Just Coffee*

Our discussions about the recent high world coffee prices have raised questions about the “fair trade” model. With coffee prices well above \$2 per pound and climbing, fair trade is in an awkward position. Fair trade marketing has focused on “paying a fair price,” which ironically was not really the case before prices rose and fair trade prices had to follow them. In this brave new fair trade world, certifiers, importers and roasters struggle to make a case that fair trade has any teeth to it.

As supplies shrink, prices rise and competition for good coffee increases, this discussion is not theoretical. Cooperatives face challenges collecting coffee from their members. In the past, enthusiastic farmers turned coffee into the co-op knowing that fair trade buyers would pay more than local buyers “coyotes.” As a result, farmers would tolerate the co-op’s partial (or zero) payment on delivery of the coffee and wait for full payment after buyers received the coffee in the United States or Europe. However, in these years of high prices, local buyers pay a price competitive with “fair trade” importers and roasters, and they pay cash on the barrelhead instead of the co-op’s two or three payments. This welcome development for cash-strapped farmers benefits them in the short-term but damages their cooperatives as they default on contracts with buyers, lose members and weaken as democratic forces in their communities.

Embracing the challenge, we’ve been discussing the situation with coffee farmers to find opportunities to deepen “fair trade.” With coyotes willing to match any price that we pay -- even up to \$3 per pound, we no longer have the price advantage. Nor do we have the access of local buyers, who can communicate directly with producers on a daily basis. Furthermore, many coyotes do not care about sustainable growing practices or quality in general, leading farmers to potentially relax their emphasis in these areas. Despite these competitive disadvantages, many producers have told us that, if we could get more



*Julia Baumgartner of Just Coffee and Irma Soccoro Olivas of La Fem picking coffee. Photo by Michael Kienitz*

money into their hands sooner, we would have a better shot at getting their coffee.

The fair trade tenet of pre-financing comes into play here. In the past, the buyers’ commitments to “pre-finance” purchases with grower groups routinely were downplayed. Technically, the grower groups had to ask buyers for credit but didn’t demand advances because they feared

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# WCCN Partner Agencies: Improving the Lives of Rural Coffee Farmers

**CECOCAFEN** is the Central Coffee Cooperative of the North. The cooperative's commitment to improving the lives of small coffee farmers and selling coffee of the highest quality on the international fair trade market is evident in all they do.

This association of 12 cooperatives markets and sells quality coffee grown by more than 2,500 families from remote, rural communities in northern Nicaragua. CECOCAFEN sells 97% of its coffee through fair trade markets, providing higher incomes for members.

Income from fair trade coffee sales allows CECOCAFEN to implement numerous programs that improve the co-op members' quality of life, such as a microfinance program for

women that provides business training, loan opportunities to start or grow a business, opportunities to save money and scholarships for members and members' children from the elementary to the university level.

With WCCN's \$500,000 loan, CECOCAFEN purchased coffee from its members and will process, dry and sell the coffee to international fair trade organizations such as Equal Exchange and Cooperatives Coffee.

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On a recent trip to Nicaragua, Cesar Gonzalez explained to us the advantages of belonging to a co-op that is a member of CECOCAFEN: *"If we were not organized in a co-op and without CECOCAFEN, we would be out of the international market because the international market does not recognize small farmers. In the beginning, we sold our coffee at the lowest price, but now our coffee is of the highest standard of Nicaragua and all is sold internationally on the fair trade coffee market for the highest price."*



*Cesar Gonzalez, CECOCAFEN vice president  
Photo by Michael Kientz*

## Beyond Price: Building a Better Pre-Financing Model continued

alienating buyers who, at the time, paid significantly more for their coffee. Grower groups also often attempted to squeak by without pre-financing to avoid paying the interest on these transactions, which effectively reduced the already insufficient price received for their coffee.

As more “mission-based” fair traders entered the market and more growers requested credit, non-profit lending organizations such as Root Capital formed to fill this much needed niche. Many growers and importers dedicated to fair trade wanted to provide pre-financing but lacked the necessary capital. Root Capital and similar organizations work with investors to provide financing for grower groups. They base their transactions on signed contracts with buyers, as well as on the grower cooperatives’ financial health. Grower co-ops receive up to 60% of the value of the contract after it is signed, which allows them to pay individual growers earlier so that they can invest in their crops, pay for the harvest and provide for their families.

A downside of this system, according to many growers, is that the farmer groups -- with occasional exceptions -- pay the interest on these loans. Charging interest makes sense to cover costs of critical due diligence and processing transactions and to provide investors with a small return on their cash. That said, based on lengthy discussions with producer groups, the prevailing system seemed a little backwards to us at Just Coffee.

Let me explain.

In this market, being able to offer pre-financing helps Just Coffee obtain the coffee that we need to run our business. In order to secure the coffee, it is very helpful to prepay some of the contract. We generally do not have the cash flow to do this, so we have started working with the very excellent people at Madison’s Working Capital for Community Needs (WCCN), a nonprofit that has been doing microcredit lending in Nicaragua for



*Veronica Zavalla, La Fem organic and fair trade coffee farmer. Photo by Michael Kienitz*

20 years. They have recently expanded to work in other countries and are particularly interested in agricultural credit. WCCN is loaning Just Coffee \$25,000 to finance our pre-purchase of La FEM’s coffee in 2011.

This departs from the current model in a couple of important ways.

First, standard practice has been for the loan to go to the grower cooperative, which then repays the money to the lender after the buyer makes final payment for the harvest. Grower cooperatives also have been responsible for paying the interest on the loan. Our discussions with co-ops and among ourselves led us to consider ways to

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## WCCN Partner Agencies continued

**Fundación Entre Mujeres** (La FEM) is a Nicaraguan non-governmental organization empowering rural women of all ages through education and access to land for farming.

Women who join La FEM learn how to read and write and have the opportunity to collectively farm coffee or hibiscus on land owned by La FEM. With their profits from collective farming, the women can support their families and buy their own land. Members include women in their 50s and 60s who are proud to have learned how to read and have the resources to be economically independent for the first time in their lives.

“It’s important for women to hold land. It’s hard for them to have a life based on equality without it,” says La FEM Director Diana Martinez.

La FEM also operates a mobile health clinic and provides women’s rights workshops and sustainable agricultural programs, including a project in which women learn to raise pigs, cows, chickens and roosters.

COMSA won a national environmental award for promoting sustainable agriculture and protecting nature.

WCCN lent Just Coffee of Madison, Wisconsin, \$25,000 to purchase La FEM’s organically grown coffee.

**COMSA**, *Café Orgánico Marcala SA*, is a private company with profit sharing and a governance structure similar to a cooperative. The company is located in Marcala, a municipality of La Paz in southwest Honduras. Here, coffee is grown in ideal conditions and recognized worldwide for its high quality.

COMSA serves more than 500 small-scale farmers, the majority of whom are indigenous Lencas cultivating less than 6 acres each. COMSA is nationally recognized for its environmentally sustainable, organic, agricultural practices.



WCCN is loaning COMSA \$300,000 to purchase and process its members' coffee before exporting it to fair trade coffee buyers. For every pound of fair trade coffee sold, COMSA receives an additional bonus that the company is investing in the cooperative's infrastructure and in local development. The organic coffee farmers have, for example, financed an emergency generator for a hospital and established a scholarship fund to ensure the education of their sons and daughters.

WCCN lent RAOS

\$300,000 to purchase coffee from its members and will process, dry and sell the coffee to international fair trade organizations.



**RAOS**, Cooperativa Regional Mixta Agricultores Orgánicos de la Sierra, was founded in 1997. It was the first cooperative of small and medium-scale organic coffee farmers in Honduras. RAOS pioneered organic farming in Honduras, overcoming doubt and lack of information to unite members in the commitment to organic, sustainable farming of coffee and other products, such as honey and pollen. Most RAOS members farm on extremely steep terrain. Shade trees, including fruit and native forest species, are used to improve biodiversity and promote soil conservation.

RAOS' success in improving members' standard of living can be measured in increased

*The burlap bag -- in which coffee is exported -- highlights that the coffee is certified organic, fair trade and from Marcala, Honduras.*

membership, from 90 members in 2006 to 500 members today. The average farmer served by RAOS is cultivating only 7 acres.

## Beyond Price: Building a Better Pre-Financing Model continued

improve upon this model. If I go to the bank for a mortgage to purchase a house, the seller of the house does not pay the bank interest on the loan. I deal with the bank because I am buying the property and it will be to my benefit. In the same way, Just Coffee is able to secure our coffee by paying the growers a substantial amount of the purchase price before the shipment of coffee. This is our mortgage. It also allows Just Coffee to share the risk of a bad harvest or other unforeseen problem with the grower co-op that often shoulders much of that load.

The other departure from the standard pre-financing model is that in the past, as far as we could tell, nonprofits did not feel completely comfortable loaning money to a “for-profit” business to buy the goods that they need to do their business. It just did not seem to jibe with commonly held ideas of how differently organized entities work together in a “market relationship.” Luckily for us, WCCN is open to re-examining and improving the standard practices.

When Irma Soccoro Olivas was young, she worked for four years on a coffee plantation and dreamed of farming her own land. Eleven years ago she got the opportunity when she joined La FEM. She started by farming organic coffee collectively on the 8.5 acres owned by La FEM. With her profits, she purchased 3.4 acres on which she also grows organic coffee. While she has her own land, she continues to farm collectively with La FEM, enjoying the solidarity of working with other women and the access to training from La FEM. Irma plans to continue using her profits to buy more land and educate her children.

In a competitive coffee market, we need to strengthen relationships with our producer partners and to stress aspects of fair trade that are not pricing mechanisms. Sharing the risk of pre-financing allows us to do so. It also creates deeper relationships between our customer community and producer communities as, in this case, much of WCCN’s funding comes from smaller private

investors. We all have a deeper and more real investment in this model.

Fair trade needs to be re-created with a re-establishment of its initial principles. By focusing on something other than a good price, we can take some steps in that direction. When companies share more risk and involve others around them, a trading relationship can develop into a real partnership. Real “fair trade” requires that busi-



*Irma Soccoro Olivas. Photo by Michael Kienitz*

nesses look beyond habitually deflecting all risk from their organizations and onto producers and other actors in the chain. Sharing the risk is what we aim to do, and we are excited to be building a different pre-financing model with WCCN, La FEM and all of you.

## A Closer Look At Fair Trade Coffee Financing Continued

market. During those years WCCN was active in the marketing of Nicaraguan fair trade coffee. Later, in the mid-1990s, WCCN provided financing to PRODECOOP, allowing this Esteli-based well-known coffee cooperative to grow and become one of the leaders in the fair trade coffee market in Nicaragua.

More recently, WCCN facilitated the connection between producers from La FEM in Nicaragua with the coffee roaster Just Coffee in the U.S., allowing La FEM to enter the fair trade coffee market.

Until recently, WCCN's role focused mostly on educating the public about the importance of supporting fair trade by buying fair trade products. During the last several months, WCCN has taken a huge step forward in becoming an active member in the fair trade movement. From now on, fair trade financing will be part of our day-to-day work, similar to our focus on micro-finance.

Why did it take us so long to be more involved with fair trade financing? The answer is simple. Until recently we didn't have a tested financial model to follow that could make this kind of lending possible without assuming too much risk. Fortunately, a financial model has been developed by a sister nonprofit group called Root Capital. In fact, Root Capital in the U.S. and many other social funds in Europe have tested the model over the last decade, providing first-time access to financing for several hundred agricultural cooperatives in Latin America, Asia and South Saharan Africa.

Fair trade financing, or grassroots business financing, is a special arrangement among a financial organization, a producer cooperative and one of its regular buyers. Each organization should be truly committed to the transaction to make it work smoothly. After conducting a due diligence analysis of the producer cooperative and the buyer, the financial organization provides a short-term loan, typically for less than a year, to the producer cooperative. The purpose of the loan is to allow the producer cooperative



*A few of the thousands of bags of coffee at CECOCAFEN's processing and distribution center.  
Photo by Michael Kienitz*

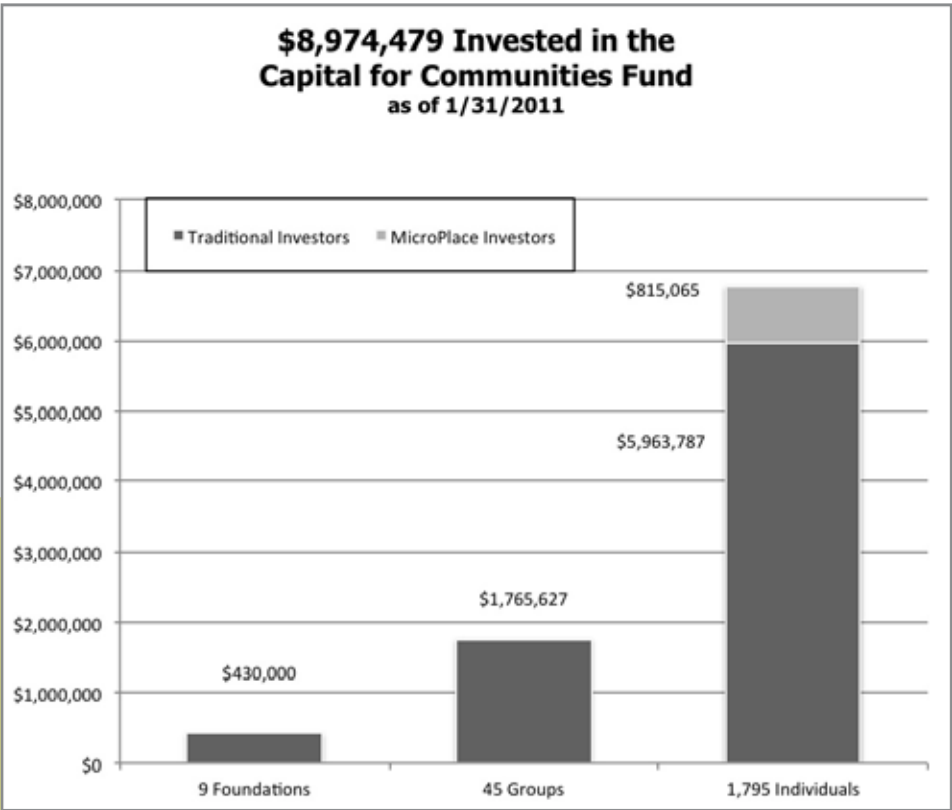
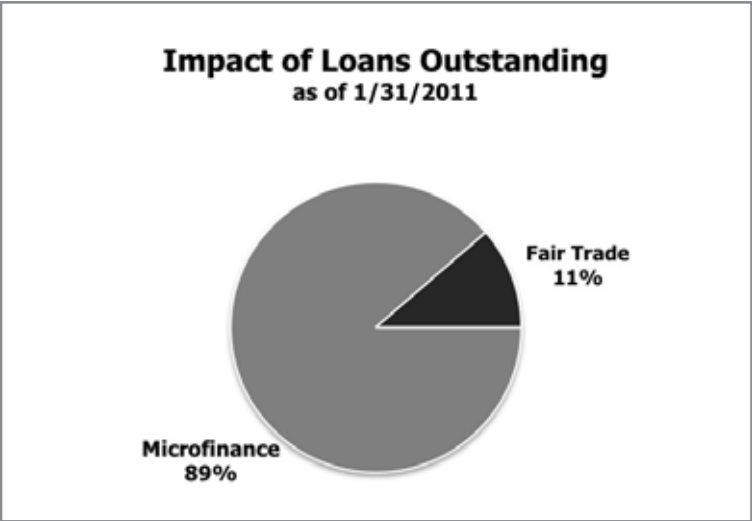
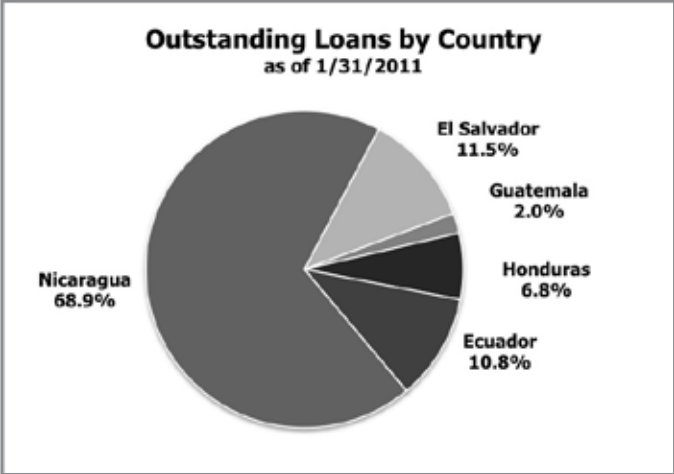
to purchase raw products, such as green coffee, from their members at the time of the harvest and to cover processing and exporting costs before receiving payment from their buyers several months later. Signed purchase contracts between producer cooperatives and the buyer serve as collateral to mitigate risk in the transaction. The amount of the loan is typically only 60% to 70% of the value of their export contracts. Once the producer cooperative delivers the product and the buyer receives it, the buyer pays the value of the purchase sale to the finance organization directly. After discounting the amount of the loan plus interest, the financial organization reimburses the remaining funds (which represent 20% to 30% of the value of the contract) to the producer cooperative.

WCCN's work on fair trade financing has begun with coffee. However, coffee is only our first step. We are expanding this work to other fair trade products such as cocoa and sesame. We will keep you informed about this very important development in our work.

# WCCN's Loan Fund Activity

**WCCN Loan Fund Stats  
as of 1/31/2011**

Loans Outstanding	\$9,248,442
Partner Agencies	24
Women	62%
Rural borrowers	32%
Total borrowers	300,000



# Borrower Profile: Maria Mendoza

By Jeanne Duffy, WCCN Development and Marketing Director

**Maria Mendoza** raises coffee, corn, beans and a variety of livestock on her 25.5-acre rural Nicaragua farm. Maria's first husband was a member of a co-op. When he died 17 years ago, Maria took over the farm and joined Cooperative La Esperanza, one of the 12 cooperatives that make up the WCCN partner agency of CECOCAFEN, the Central Coffee Cooperative of the North.

Before joining the co-op, Maria and her family only raised corn and beans. Now due to training and access to credit and international markets from CECOCAFEN, Maria grows coffee on 5.1 acres. She credits coffee for improving her family's quality of life.

"There is a lot more income from coffee," she said. "Before, my kids did not attend school, but now because of higher coffee prices they can attend school."

Loans from the co-op have helped Maria keep her farm going. She has had one loan each year for the last 17 years. Her last loan was for \$190 to hire labor



Maria depulping coffee beans on her farm. Photo by Michael Kienitz

to prune and fertilize coffee plants. The co-op also has taught her how to care for livestock to improve her family's nutrition and diversify her income. She has purchased three pigs, a milk cow and 15 chickens to better feed her family and to sell in the local markets.

Maria likes farming and does not even consider it hard work. She said, "It is natural to be a farmer because I grew-up in the country and I am used to the work."

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City, State, ZIP \_\_\_\_\_

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- I would like to pledge \$\_\_\_\_\_ every month/quarter (please circle one). Please send me a reminder.
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  - The Capital for Communities Fund**
  - Where most needed**
  - I am interested in making a planned gift to WCCN. Please contact me.**



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**Save the date:  
WCCN annual meeting, Friday, April 29, 2011**

Please join us to honor the investors who first invested in WCCN's original loan fund, the *Nicaraguan Community Development Loan Fund*, 20 years ago and are still investing today in the *Capital for Communities Fund*!

Representatives from our partner agencies also will highlight how WCCN helps promote economic development, fair trade and women's empowerment in rural Latin America.

**WCCN Annual Meeting**

Friday, April 29, 2011, 6 p.m. to 8 p.m.  
United Way Building, 2059 Atwood Ave., Madison, WI  
\$10 suggested donation  
To RSVP, please call Jeanne Duffy at 608-257-7230  
or e-mail [jeanne@capitalforcommunities.org](mailto:jeanne@capitalforcommunities.org).



*Rosi, member of La FEM, sells coffee and other products in Nicaragua. Photo by Michael Kienitz*